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TAGS: ECON EFIN KTFN PREL PTER PK
SUBJECT: STATE BANK OF PAKISTAN STRENGTHENS REGULATIONS FOR
DETECTION OF MONEY LAUNDERING

¶1. (SBU) Summary: In March, the State Bank of Pakistan amended its rules to detect money laundering and terrorism finance, requiring all banks in Pakistan to establish compliance units, conduct due diligence on customers, and identify suspicious customers and transactions. The rules are a response to a recent evaluation by the World Bank and Asia-Pacific Group of Pakistan's compliance with the Financial Action Task Force (FATF) recommendations. End Summary.

¶2. (SBU) New rules enacted by the State Bank of Pakistan (SBP) in March broadly require that banks and development finance institutions, through their Boards of Directors, develop due diligence and know-your-customer procedures, and identify high risk customers.

Compliance Units Now Mandatory

¶3. (SBU) The new SBP rules require every bank in Pakistan to set up a compliance unit with a full-time director, create management information systems to regularly monitor customer accounts and transactions, regularly update customer information, and plan suitable training for compliance staff. The rules also require banks to maintain up to date customer records, as well as to notify the SBP in writing of any failure to comply with the rules.

¶4. (SBU) Previously, banks in Pakistan were not required to have separate compliance units. While foreign banks maintain separate compliance units based on international standards, local banks have allowed compliance monitoring to blur with enforcement of other regulations. As a result, according to one international bank manager, local banks do not have effective compliance monitoring and often overlook these types of issues.

¶5. (SBU) The same international bank manager estimated it will take approximately six months for local banks to build capacity sufficient to comply with these rules, as they will have to reorganize and hire new employees. He also said he was confident that international banks in Pakistan would be willing to assist in this effort.

Customer Identification

¶6. (SBU) The most important aspect of the new rules is the requirement that customers' Computerized National Identity Cards (CNICs) are verified with the National Database and Registration

Authority (NADRA). Banks must obtain attested copies of all customers' CNICs not later than June 30, 2009, and discontinue relationships with customers who do not comply. Previously, SBP rules required banks to identify their customers, but old identity cards were not tied to NADRA's computerized database and were more easily forged.

Enhanced Due Diligence

¶7. (SBU) The rules also identify categories of high risk customers and require banks to conduct enhanced due diligence on their accounts. High risk customers include non-residents, private banking customers, non-governmental organizations and charities, customers in cash based businesses or with no identifiable source of income, and customers with connections to countries where anti-money laundering laws are lax or offshore tax havens.

¶8. (SBU) The new rules require the SBP to inspect banks and their staff for compliance with these regulations, and to refer negligent or non-compliant banks to the Financial Monitoring Unit (FMU) for monitoring. FMU Director Azar Kureshi reported that the SBP conducts in-depth inspections of banks at least once a year and conducts targeted inspections as needed. Kureshi stressed that the FMU asks the SBP inspection unit to focus on banks' compliance with rules related to money laundering and terror finance.

Comment

¶9. (SBU) Comment: Provided they are implemented and enforced, SBP's new counter-terrorism finance and anti-money laundering regulations represent a welcome step towards ensuring that local banks' compliance monitoring is elevated to a level that more closely resembles international standards. Post expects that an FATF recommendation compliance report to be presented to the GOP soon will give SBP credit for changing its rules and find it to be a credible regulator.

¶10. (SBU) Full implementation may prove difficult, however, as the FMU is currently operating at half staff and its present ability to effectively oversee the monitoring units is doubtful. Under Terms of Reference U.S. Treasury executed with the GOP, a great opportunity exists to help build capacity within the FMU, especially regarding implementation of these new rules. Post may also wish to explore opportunities to offer capacity building training to local banks, in conjunction with the SBP, to help the banks implement the new rules and train compliance monitoring units/staff. End comment.

PATTERSON